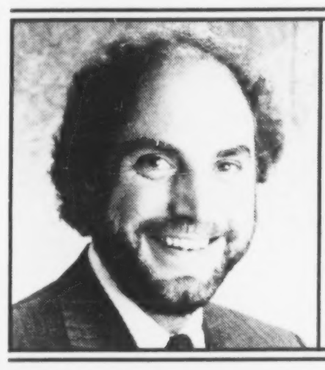
## EDITORIAL

# Supermarkets Strike Back With Hybrid

Everyone loves to hear a story about a new retail concept, right? Well, guess what, I've got one for you.

This concept is particularly interesting because it's directly related to the results of a research study on Alternative Store Formats released last month by the Food Marketing Institute during the supermarket industry's annual convention.

The FMI study analyzed the new competitors threatening supermarkets (primarily warehouse clubs, supercenters, and deep discount drug stores) and offered several suggestions for supermarkets to offset the onslaught.



**TONY LISANTI**
Editor

And that's what this new concept is—one supermarket chain's reaction to the mounting competition from alternative retail concepts. It was developed quickly and quietly by ShopRite, the largest chain of supermarkets in the Northeast, in the small, affluent suburban New Jersey town of Bernardsville. It is located next to a full-size ShopRite Supermarket and is appropriately called "ShopRite Annex." It occupies the former site of Jaeger Lumber, and according to a source, ShopRite grabbed the location before other interested chains including CVS, could.

What's so special about the ShopRite Annex? Let's take a look at this hybrid concept which combines a bit of a drugstore, warehouse club and discount store. In other words, aggressive pricing, value, convenience, deep selection and brand names.

The store, which currently utilizes about 20,000 sq. ft., is promoted as a low price neighborhood drug store. Its tag line states: "The lowest prices that ShopRite is famous for, plus service and variety of a neighborhood drug store." ShopRite Annex is divided into several key high-traffic departments:

- Pharmacy—A full pharmacy is promoted by coupons offering $3 off any new or transferred prescription.
- Movie rentals—A complete video rental department promotes current releases at 99 cents.
- Books and magazines—Like a discount store or warehouse club, bestsellers are heavily discounted at 30% to 40% off list price.
- Health and beauty care—About one-third of the store is devoted to a wide selection of name brands in standard sizes in all categories.
- Greeting Cards—This department is consistent with what other types of retailers offer.
- Seasonal—An impressive selection of plants, seed and fertilizer is currently being merchandised along with resin chairs, grills, and accessories.
- Giant Value—This is, perhaps, the most interesting area of the store. The last two aisles are set up like a warehouse club with a limited selection of soda, cereal, coffee, household cleaners, paper goods, and condiments in large sizes and multipacks.

This hybrid test concept, which is very similar to the new F&M deep discount drug store prototype, is further evidence of the blurring of retailing. It should be a reminder to everyone that the supermarket industry has begun to flex its muscle and react to the challenge of discount stores and warehouse clubs.

I wonder how many similar concepts are quietly sprouting up around the country? I bet there are quite a few. Beware.

## BUYERS & SELLERS

# Political Correctness Nothing New to Retailers

Political correctness has been the butt of jokes and whipping-boy (er, make that whipping-"not fully mature person of the male gender") of conservative commentators for the past year. Recently, columnist John Leo, writing in *U.S. News & World Report*, called 1991 a "banner year" for political correctness. "A new batch of 'isms' were announced, many new oppressions were discovered and opponents were soundly thrashed and occasionally gagged so that a kinder, gentler campus might emerge."

But political correctness is nothing new in the retail industry, which for years has had its own form of PC Retailspeak.

With the help of *DSN* senior editors Pete Hisey and Mary Ellen Kelly, I've put together a glossary of some of the more often heard PCs of retailing.

There's the ever-popular "left to pursue other interests"—which nobody ever believes to be literally true. Some others:

"Environmentally friendly." Translation: The product is too high-priced to sell based on effectiveness alone.

"We're updating assortments" or "reducing inventories." Translation: It's finally time to run a clearance sale on love beads and bell bottoms.

"Improved adjacencies." Translation: Eliminating the juxtaposition of condoms with incontinence products or panty-hose with power tools.

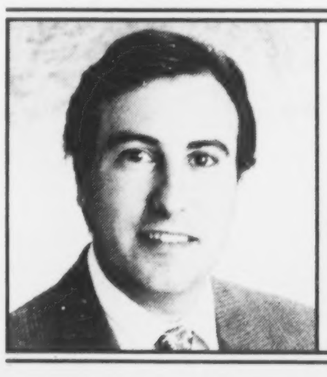
"Centralized buying." Translation: Computers can buy better than our store managers.

"Our shrink rate is in line with industry norms." Translation: We're thinking of taking the cash registers out altogether.

"We're taking a wait and see attitude on that one." Translation: Our business plan calls for waiting until the competition is beating our skulls into shards before we try something new.

"We think that our customers are looking for the best value, not necessarily just the best price." Translation: We couldn't match Wal-Mart's price if we got the stuff for free.

"We're an off-pricer, not a discounter." Translation: We sell large volumes of brand name goods at discount from the manufacturer's suggested list price, but just don't use the "D" word.



**DON LONGO**
Exec Editor

"We're outplacing a number of key executives." Translation: They were fired. Other PC variations on "fired" include "restructuring," "reshaping the workforce," "releasing resources," or executing a "normal payroll adjustment."

Industry observers like Pete, Mary Ellen and I have grown accustomed to such retail PC talk. We hear it all the time. But what if political correctness, in its current form in U.S. academia,were to sweep into retailing.

Already, according to *U.S. News*, the Eddie Bauer catalog offers pitch-saturated kindling wood made from trees felled by lightning or other natural causes. Yes, comments Leo, "and the minks on my wife's coat all committed suicide."

To be truly politically correct, many retailers would have to change their name. Herman's, for instance, would have to be Her/His Male/Female's.

Grandpa's would become Mature Citizen's. So as to avoid discriminating on the basis of age, Child World could probably make a simple adoption of, say, Not Fully Mature Person World, but the spelling—and grammar—challenge will absolutely demand a total revamp of Toys "R" Us.

Hit or Ms. is a fairly obvious and inexpensive signage change, but what to do with The Good Guys? They could try The Good Persons, but by whose standards are they "good?" Is this meant to imply subservient, co-dependent people pleasers? Hmmm. So, how about The Adequate Persons?

G.I. Joe's is, of course, absolutely untenable. Not only does it promote militarism in our not fully mature persons, but it is also a sexist, exclusionary appellation, slyly hinting that only the most macho should even enter the premises.

And the same goes for Rich's. America does not need any more classist propaganda based on wealth.

Now for a quick quiz. What would you do to make these chain's names more PC:

- Pep Boys?
- Casual Male?
- Lionel Kiddie City?
- Oshman's?

You will be graded.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# VIDEO SELL-THROUGH

# Promos Play Big Part in Home Video Niche

## *Discounters to Grab Year-Round Profits With Merchandising Outposts, Displays, Pricing*

*Nationwide DSN Report*

The story of a cannibalistic psychologist who helps an FBI agent nab a transvestite serial killer who, among other things, skins his victims, is just one of the exciting home video releases coming out this summer and fall.

Besides the Oscar-winning Best Picture "Silence of the Lambs," other hit movies that promise to make discount store cash registers jingle include:

- The $100 million-plus box office hit "Wayne's World";
- Disney's award-winning animated feature "Beauty and the Beast" ($120 million-plus at the box office)";
- Last summer's block-buster action film "Terminator 2: Judgement Day";
- Kevin Costner's Oscar-winning feature "Dances with Wolves"; and,
- Steven Spielberg's adult fairy tale, "Hook."

Most of those movies will hit stores at the sell-through price of $24.95, according to sources.

Less spectacular releases, but more likely to build discounter's year-round everyday video business, are also on tape. Those include:

- The September release of "The Chipmunks," from Buena Vista Home Video, which distributes Walt Disney, Touchstone, Hollywood Pictures and Buena Vista videocassettes. Through an agreement with Bagdasarian Productions, Buena Vista will market "The Chipmunks" as a separate video line at the sell-through price of $12.99 each;
- The 50th anniversary release of "Casablanca" by MGM/UA Home Video, in conjunction with a major sponsorship agreement; and,
- Two sports entertainment videos from ESPN Home Video, "The Best of SportsCenter with Chris Berman" at $14.95 and "Practical Jokes on the Pros" at $9.95;
- Two new "Nonsense and Lullabyes" videos from Family Home Entertainment at $9.98 each, as well as a repricing of its animated classics line, including such titles as "The Adventures of Tom Sawyer," "Peter Pan," and "Black Beauty" to $9.98, from $14.95 each.

"The industry has gotten very good at selling the hit movies," commented Disney Worldwide Home Video chief Bill Mechanic. "Now it's time to get better at selling year-round."

Supporting Mechanic's contention that retailers should pay more attention to building their year-round video business are figures from software jobber Handleman, which show that 34% of holiday 1991 home video sales were of product priced at under $10. Another 22% of prerecorded videocassettes sold during the 1991 holiday season were priced between $10 and $15, while the big hits are generally priced at $20 and higher.

Home video is one of the fastest growing product categories in mass merchant outlets. Discounters who have devoted the necessary space to present a wide assortment of product, like ShopKo, Kmart and Wal-Mart, have reported sales gains of between 20% and 46% in home video this year.

"We're a business that happened in spite of itself," observed Mechanic of Disney. Richard Cohen, executive vice president of home video for Disney, added, "For retailers who have made the inventory commitment, we've seen same store sales increases of 300% to 900%."

Generally, margins for retailers are better on the basic, everyday product because there's not as much price competition on the lower priced videos as there is on the monster hits. One way to build the overall business, suggested Mechanic in an interview with *DSN*, was to create video outposts through the store.

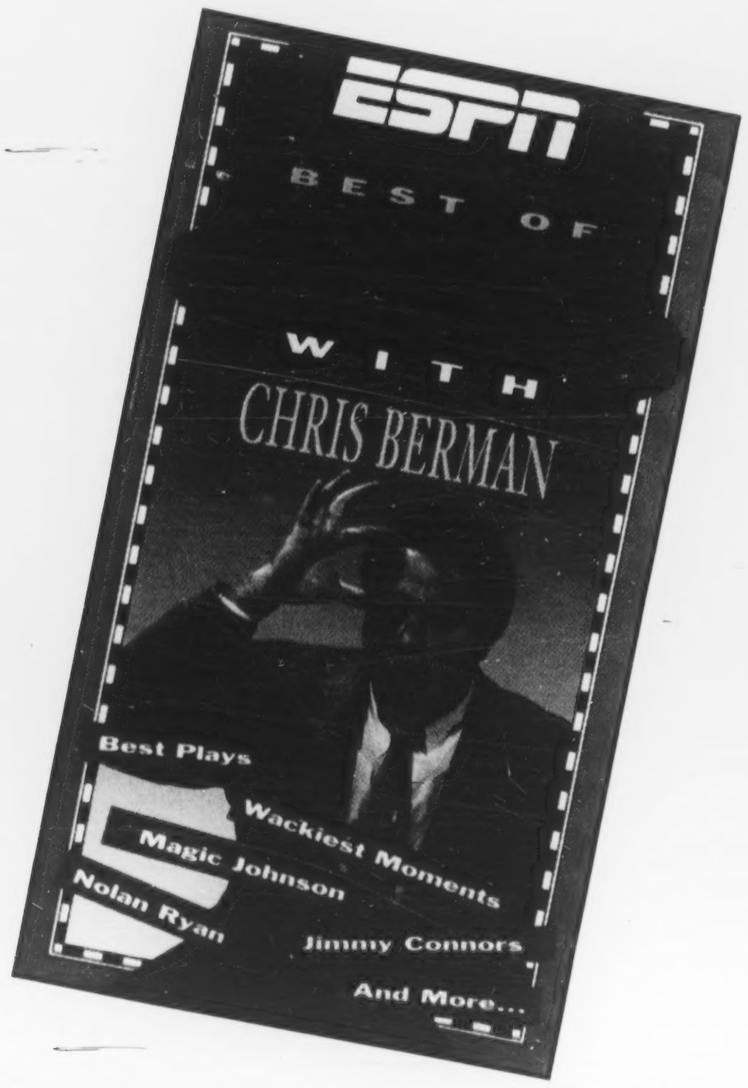
"You can put high-volume, best-seller videos in the main aisle to give the customer a taste of what they'll find in your full video department," said the Disney executive. "Then, you can create other opportunities, such as an outpost in the toy doll department for the "Dance Workout with Barbie" exercise video, "Ed Sullivan Show" videos in the TV department and "Chipmunks" videos in toys or apparel."

Industry figures reveal that nearly half (47%) of all home video customers buy their videos at mass merchant outlets, compared to only 20% at video specialty stores, 11% via direct mail, and 9% from supermarket and convenience stores. With VCR penetration growing from just 25.9% of households in 1985 to 90.2% of households by 1995, the total market is expected to keep growing strong. Almost 12 million VCRs were sold in 1991, 45% to first-time buyers, 24% for replacement, and 31% to multi-unit homes.

"The home video industry is Hollywood's largest customer," said Wayne Huizenga, chairman and chief executive officer of Blockbuster Entertainment, the largest video specialty chain, in a talk to analysts. "In fact, [home video] is as large as movie theaters."

*(Continued on page 37)*

***ShopKo's video preview station** enables customers to watch movie trailers of titles stocked by the store.* (DSN Photo)




***ESPN Home Video** offers 'The Best of SportsCenter with Chris Berman' at $14.95. This video features 1991 highlights including Major League Baseball, 'Plays of the Year' and 'Wackiest Moments.'*

# VIDEO SELL-THROUGH

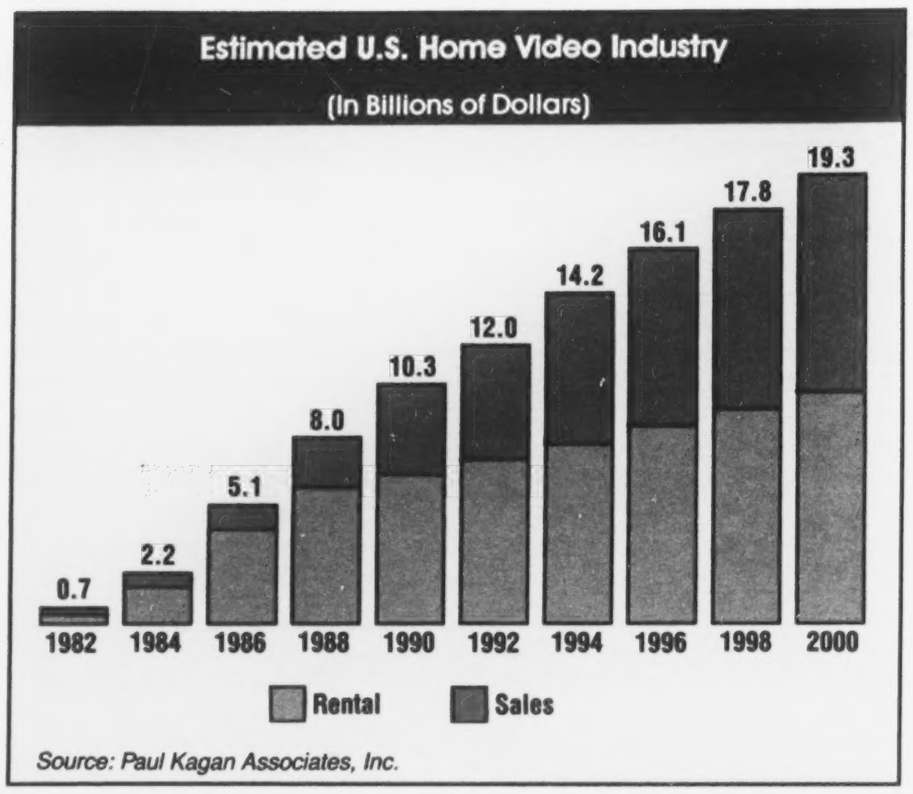
## Promos Play Large Role in Home Video

*(Continued from page 35)*

Blockbuster is by far the largest of video specialty chains and is still growing even as the sell-through business continues to shift to mass merchants. Its newest store prototype, being rolled out to all 2,000 stores, features new freestanding fixtures holding up to 450 tapes each. These new fixtures enable the store to more effectively display sell-through and previously-viewed products in mass presentation.

Following the lead of mass merchants like Target and ShopKo, Blockbuster is testing preview machines that enable the customer to see a trailer for up to 100 different titles stocked by the stores. To preview a movie, a customer punches a number of the selected title on the screen.

Of course, hits will continue to grab the spotlight and be a big part of the video business. Disney projects that this fall's release of "Beauty and the Beast," its 30th full-length animated feature, will generate $135 million to $140 million in sales—topping "Fantasia" as the best-selling home video of all time.




## New Trend: Specialty Videos

*(Continued from page 36)*

Knowing your customers' needs and wants are an important factor of the success equation, since cautious customers are increasingly demanding more information from retailers about the products they sell. Additionally, store level employees must be motivated to provide service and attention to make their customers lives easier.

To this end, retailers, suppliers and distributors must join together in "strategic alliances." Their very survival demands on cementing ties to one and another in far more substantial ways. For example, video suppliers and distributors need to meet with the person who meets the consumers fact to face: the retailers. Only in this way, suppliers can obtain the necessary information to accurately tailor the video mix to the customers' needs.

Retailers who have primarily relied upon suppliers to provide product and promotional material must be more actively involved in product selection on an ongoing basis, to maintain consistency and accuracy. Store level employees have to be motivated to provide customer information to their suppliers. However, a recent study has shown that more than 70% of retailers do not share sales data with their working partners. Sharing information is imperative for everyone.

Consumer awareness and interest in special interest videos is growing at an unprecedented pace. It's more evident that consumer-driven marketing, value-driven operations and strategic partnerships among retailers, suppliers and distributors are the necessary components for survival.

sell more videotape, sell hours.

For home video tapers, extra recording time means extra value. That's why longer-length videotapes are the fastest growing segment in the industry. And that's why BASF is the long-length leader. Only BASF gives consumers the T-130, T-160, *and* T-180, with an additional ½ hour, 2 hours, and 3 hours of recording time, respectively. That's an unbeatable choice of tape lengths for every recording need. With unmatched quality for recording at any speed. So stock up on BASF videotapes today. There's never been a better time to increase your profits.

The longer. The better.

# IMRA Show Illustrates Vitality of Discounting

*(Continued from page 1)*

Generally, attendees at the convention were upbeat, expressing more than the usual degree of "cautious optimism." On the eve of the convention, most discount store chains were reporting double-digit percentage sales gains for the month of April, with many also posting 10% or more comp-store figures.

However, Bob Buchanan, principal, Alex. Brown & Sons, cautioned retailers not to get too excited. In a general session entitled, "Mass Retailing in the '90s—A Critical Analysis," Buchanan said, "January and February both started strong," but he believes it was a "false start." Buchanan estimated there will be 1% to 2% real growth in consumer spending this year, compared to a 1% decline last year.

Moderator John McLaughlin, host of the McLaughlin Group, noted that consumer confidence was up 8% in April, retail sales were up during three of the past four months, and the trade deficit was down.

Janet Mangano, vice president, Burnham Securities, predicted modest growth this year due to strength in the consumer market, but due more to the purchase of services than products.

On the manufacturer side, business appears equally improved. Vidal Sassoon appliances is "running well ahead of last year," said Bill McCorvey, senior vp, and Tony Taggart of Seymour ironing goods called the current year ending June 30 "the best year we've ever had."

Robert Verdisco, completing his first year as IMRA's president, attributed the increased attendance to IMRA's ability to expand its appeal to home center chains and warehouse clubs, among other types of specialty discount formats.

The absence of Kmart, which resigned from IMRA this year, was more than replaced by first-time attendees from BrandsMart U.S.A., Computer City, Conway, Everything's A Dollar, Grandpa's, Leedmark, Lowe's, Phar-Mor (registered but not seen on the merchandise show floor), Warehouse Club, and Wholesale Depot.

IMRA's 1992 Consumer Research Study, conducted by Deloitte & Touche/TRADE Retail and Distribution Services Group and entitled, "Stop, Look & Buy . . . Where & Why," outlined the various shopper groups, merchandise selection, advertising vehicles, store layout, and price strategies that work best for each.

Shopping behavior, the study noted, is driven by time, availability and for whom the person is shopping—for themselves or for their children. However, prime motivators continue to be low price and selection, although each shopper group now reacts differently to the five key shopping motivators of low price, selection, location, quality and in-stock position.

The survey, based on 1,006 phone interviews, identified four primary shopper groups: working shoppers without children (38%); working shoppers with children (34%); homemakers (10%); and retirees (12%, but growing).

Study highlights include:

- 73% of mass market shoppers are female;
- 70% are employed;
- 59% are married;
- Food is the mostly frequently planned purchase;
- Mass market outlets are the stores of choice followed by food and department stores.

Reaction to the study was somewhat mixed. Many thought the report was insightful, while others said they expected more answers to critical problems of how to appeal to a broader spectrum of customers.

The emphasis on partnership, begun at last year's convention, continued with the presentation of IMRA's Associate Member Committee's Partnership Award to Venture chairman Julian Seeherman.

"The first thing that's important is to have partnership yourself," said Seeherman, who attributed Venture's success to having "others help us. We work with each other to a common goal."

Interviewed by *DSN* on the convention floor, Jack Shewmaker, former Wal-Mart vice chairman and now an independent consultant, described partnership as a crucial ingredient for retailers who hope to respond to the challenging business landscape of the 1990s. However, Richard Kronrad, president of jewelry supplier, AAi, pointed out that not all retailers take partnership seriously enough. "They have to take the word partnership seriously and not just put the burden on the supplier," said Kronrad.

Chuck Siegel, president and ceo of 50-Off Stores, the fast-growing chain of soft lines stores, agreed that more partnership between retailers and vendors is needed.

There must be "a greater recognition of the needs of retailers and vendors to understand each other—an understanding by both to operate long-term profitably. It's not just one deal or one day. The really successful companies are led by people who manage by example and not by title."

Larry Rigel, vp and gm of The Andersons retail group, added that "moving information back and forth [between retailers and supplier] is critical. All kinds of efficiencies can be gained. It's a win-win situation."

Another major theme at the show was target marketing. Retailers and manufacturers have come to understand that they must know specifically who their customer is. There also is a great interest in programs and services that enable retailers to extract as much information about their customers as they can so that products, merchandising programs, store design, etc., are geared to meet their needs. Bob Giampietro, director of special projects for Target Stores, contended that the old "cookie-cutter" formula, that of dealing in averages "conspires to create mediocrity." It's like, he said, sticking one's hand in both fire and ice at the same time. On average, your hand should feel comfortable, but obviously that's a good way of losing your hand.

Wal-Mart vice president John Lupo and Management Horizons chief economist Carl Steidtmann opined that consumer-oriented warehouse clubs would be the next generation of discounters—low margins, high volume but somewhat greater sku selection than today's clubs.

The expanding power of Wal-Mart in all three of its major retail divisions—discount stores, warehouse clubs and food retailing—also captured the attention of attendees. The effect of Wal-Mart's geographic growth into the Northeast was addressed by Joe Hatfield, senior vp, Sam's Club.

"Wal-Mart is not concerned about the different characteristics of the Northeast customer and shopper base," Hatfield told *DSN*. "Wherever you go, all customers want value." He said Wal-Mart is willing to pay more to get the right people working in the stores, and said, "when you treat your associates right, you'd be amazed what they will do for you."

Some vendors, who asked to remain anonymous, also expressed their concern about growing private label programs at Wal-Mart and others.

The growth of the warehouse club industry was also noted by numerous attendees. Said Lupo of Wal-Mart: "I contend that the warehouse club industry has the potential to do to the discount industry what discounters did to the department store industry."

He suggested retailers "be competitive to the penny. Challenge manufacturers for the same prices [they make available to clubs], and offer pallet displays." Lupo noted that assortment is the biggest advantage discounters have over wholesale clubs, and that the assortment keeps customers coming back more often than the twice a month average for clubs.

During that same session, Wal-Mart executive vice president Bill Fields concluded, "We [retailers] have to be able to adapt because probably the best competitor isn't even on the street yet. Item merchandising will be key to training merchants of the future. It will do nothing but make the company stronger. There is no better training than to have someone develop a line, fail and learn."

*This article was researched and written by Don Longo, Laura Liebeck and Mary Ellen Kelly.*

***Caldor's Steve Fishman** and wife Barbara walk the show floor.*

# Wal-Mart Plans Growth in California

*(Continued from page 1)*

The California stores will be supplied from a 1.1 million- sq.-ft. distribution and regional office center in Porterville, Calif., one of three DCs opened last year. That facility—also geared to serve Nevada and Oregon—can hold two million cases of merchandise and ship about 500,000 cases a week.

But the discounter's dominating status is evident from the expansion support it's receiving from developers, some of which are positioning Wal-Mart as an anchor for community and regional centers that often include other major retailers as co-anchors.

Wal-Mart will open a freestanding 125,000-sq.-ft. store this fall in Hemet, with the site permitting a future addition of about 30,000 sq. ft. The retailer obtained the 13-acre site from FKC Partners, with the help of CB Commercial Real Estate Group. The store, in Riverside County, complements a Wal-Mart in Perris opened earlier this year. Perris employees were among those appearing in the April circular.

Wal-Mart will be the anchor in two new Riley/Pearlman Co. centers. These are Sunwest Plaza in Lodi, set to open in fall '92, with Ross Stores, 98¢ Clearance and Fashion Bug as other anchors, and Mission Ridge Plaza in Manteca, due to open in December with Denneys, Mervyns, Pak 'N Save and Warehouse Entertainment as co-anchors. The Lodi and Manteca areas bracket Stockton, where Wal-Mart already has a store.

Vestar Development will have Wal-Mart as an anchor in Cerritos Towne Center opening in May '93 in Cerritos, with Smith's Food and Drug as a co-anchor. Cerritos is a Los Angeles suburb.

# Red Ink Sinks Alexander's

*(Continued from page 4)*

His merchandising thumb print was visible in Alexander's, which shortly after his appointment began to concentrate more on basic assortments and rolled out POS scanning and other electronic improvements. Though comp store sales did begin to show signs of modest increase, they were not meaningful enough to keep the operation going.

Goldberger had been president of Hills, but left that chain in December 1990. Soon after, Hills, which was founded by his father, Hank Goldberger, filed for Chapter 11.

One of Alexander's largest shareholders, Interstate Properties, was also involved with the defunct Two Guys chain, which ultimately made money for the company through its real estate rather than its retailing business.

Alexander's was founded in 1928 by George Farkas. The chain grew to 15 stores in the metropolitan New York area, but began selling its properties as business declined in the early '80s.

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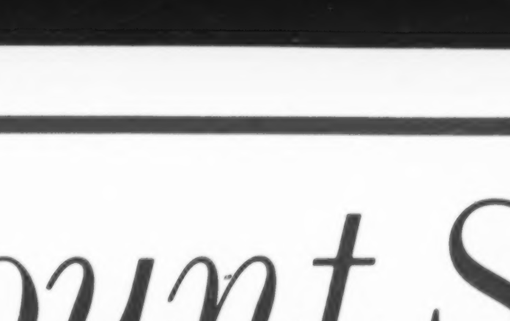
WAL★MART WAL★MART WAL★MART WAL★MART WAL★MART

# THE WORLD OF WAL★MART



**Thirty years ago, a small variety store retailer in Bentonville, Ark., launched a discount store chain dedicated to bringing name brand merchandise to rural consumers at discount prices. The chain grew quietly and without much notice during its formative years. Today, Wal-Mart is America's largest retailer with an ever-growing fleet of discount stores, Sam's Clubs and Wal-Mart SuperCenters. In this special issue, DSN chronicles the history of this retail phenomenon and provides a glimpse into its future.**

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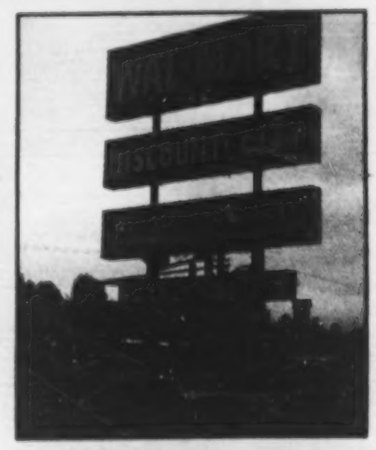


MIXED STATES
00240370 @C 8605 998/0169Ч
MS JEANNE LONG
CONGRESSIONAL INFOR SVC INC
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814


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